

Message Text

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ACTION COME-00

INFO OCT-01 EUR-12 ISO-00 EB-07 GSA-01 INT-05 AID-05

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R 011349Z OCT 76

FM AMEMBASSY ATHENS

TO SECSTATE WASHDC 7166

ZEN AMCONSUL THESSALONIKI 2224

LIMITED OFFICIAL USE SECTION 1 OF 2 ATHENS 10590

E.O. 11652: N/A

TAGS: EMIN, EINV, EIND, GR

SUBJECT: IMPACT OF FOREIGN INVESTMENT POLICIES ON BAUXITE/ALUMINA
INDUSTRY

REF: A) STATE 220706, B) ATHENS 1606, C) ATHENS A-147

D) ATHENS A-73, E) ATHENS 7965, F) 75 ATHENS A-206

G) 75 ATHENS 5959

SUMMARY: THERE IS NO GREEK LEGISLATION SPECIFICALLY GOVERN-
ING INVESTMENT IN THE BAUXITE/ALUMINA SECTOR. FOREIGN INVEST-
MENT IS REGULATED BY GREEK FOREIGN INVESTMENT LAWS, ECONOMIC
DEVELOPMENT INCENTIVES, REGIONAL DEVELOPMENT INCENTIVES AND
MINING LEGISLATION. ALTHOUGH RECENT MINING LEGISLATION WILL
RESULT IN CLOSER SUPERVISION OF FOREIGN INVESTMENT, (REF B),
THERE IS CONSIDERABLE GOG INTEREST IN FOREIGN INVESTMENT.
AS GREECE SEEKS EARLY FULL MEMBERSHIP IN THE COMMON MARKET,
THERE IS AN AWARENESS IN BOTH THE GOVERNMENT AND THE
PRIVATE SECTOR THAT FOREIGN CAPITAL, TECHNOLOGY AND MANAGE-
MENT EXPERTISE ARE ESSENTIAL TO IMPROVE PRODUCTIVITY AND
REALIZE ECONOMIES OF SCALE. RESTORATION OF POLITICAL STABILITY
AND THE IMPLEMENTATION OF GENERALLY ENLIGHTENED AND
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INTELLIGENT ECONOMIC POLICIES BODE WELL FOR A RESURGENCE

OF BOTH FOREIGN AND DOMESTIC INVESTMENT, ASSUMING
NO NEW CRISIS WITH TURKEY. END SUMMARY

1. THE GOG HAS EMPHASIZED THE MINING SECTOR IN EFFORTS
TO PROMOTE ECONOMIC DEVELOPMENT AND EXPORTS AND FOR
BALANCE OF PAYMENTS REASONS. SYSTEMATIC AND RAPID IDENTIFI-
CATION AND EXPLOITATION OF LOCAL MINERAL RESOURCES AND
INCREASED VALUE ADDED IN SECONDARY PRODUCTION ARE
CENTRAL GOG OBJECTIVES LIKELY TO BE EMPHASIZED
IN THE 1976-1980 ECONOMIC DEVELOPMENT PLAN NOW UNDER
PREPARATION. NEW MINING LEGISLATION (LAWS 272, 273, AND
274), DESIGNED TO STIMULATE DEVELOPMENT OF MINERAL
RESOURCES AND INCREASE GOVERNMENTAL SUPERVISION, BECAME EFFEC-
TIVE ON MARCH 6, 1976 (REF B). GOG EMPHASIS ON
MINERALS AND ON IMPROVING INVESTMENT CLIMATE HAVE
RESULTED DURING 1975-1976 IN SEVERAL NEW PROJECTS, IN-
CLUDING A \$200 MILLION ALUMINA PLANT, A \$50 MILLION SEA WATER
MAGNESIA PROJECT, AND TWO SEPARATE NICKEL FACILITIES. IN
DECEMBER 1975 THE HELLENIC INDUSTRIAL AND MINING INVEST-
MENT COMPANY (HIMIC), A LOCAL BANKING CONSORTIUM, WAS FORMED
WITH THE STRONG GOG SUPPORT. HIMIC'S PROGRAM INCLUDES
ESTABLISHMENT OF AN ALUMINA PLANT, INDUSTRIAL UTILIZATION
OF THE MESSOLONGHI SALT PANS, AND ESTABLISHMENT OF A
PETROCHEMICALS COMPLEX.

2. THERE ARE NO SPECIAL LAWS OR INCENTIVES TO PROMOTE
FOREIGN INVESTMENT IN THE BAUXITE/ALUMINA SECTOR. SUCH INVEST-
MENT IS GOVERNED BY GREEK FOREIGN INVESTMENT LAWS 2687/53
AND 4171/61 AS AMENDED; ECONOMIC DEVELOPMENT INCENTIVES
FOR INDUSTRIAL AND MINING INVESTMENT PROJECTS; INCENTIVES
FOR DEVELOPMENT OF FRONTIER AREAS; AND MINING LEGISLATION.
LAW 274/76 " RE: REVISION OF THE MINING CODE" EXCLUDES
FOREIGN INDIVIDUALS OR COMPANIES FROM ACQUIRING MINERAL
RESEARCH PERMITS; REQUIRES CABINET APPROVAL OF FOREIGN
APPLICATIONS FOR MINING CONCESSIONS; OBLIGATES
MINE OPERATORS TO SELL ORE OR LEASE MINING PROPERTIES
TO GREEK-CONTROLLED METALLURGICAL INDUSTRIES, INCLUDING
ALUMINA; ESTABLISHES A 50 YEAR LIMIT (WITH PROVISION FOR
AN ADDITIONAL 25 YEARS, AND IN EXCEPTIONAL CASES A SECOND
25 YEARS) ON CONCESSION RIGHTS OR LEASES OF STATE
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MINES; AND INTRODUCES ENVIRONMENTAL PROTECTION AND POLLUTION
REQUIREMENTS.

3. TO CONSERVE INDIGENOUS BAUXITE RESERVES AND MEET
REQUIREMENTS OF ONLY ALUMINUM SMELTER IN GREECE, OPERATED BY
"ALUMINUM DE GRECE" (REF D), AND OF FUTURE ALUMINA AND/OR
ALUMINUM UNITS, THE GOG HAS SINCE 1963 ESTABLISHED
ANNUAL BAUXITE EXPORT QUOTAS. 1976 QUOTE IS 3,182,000

METRIC TONS, A SLIGHT INCREASE FROM 3,155,000 TONS IN 1975. ACTUAL EXPORTS IN RECENT YEAR'S HAVE BEEN WELL UNDER EXPORT CEILINGS. 1975 EXPORTS WERE 1.6 MILLION TONS, WORTH \$21 MILLION. EMPHASIS HAS BEEN GIVEN TO ALUMINA AND ALUMINUM EXPORTS BECAUSE OF HIGHER FOREIGN EXCHANGE EARNINGS (1975 EXPORTS: \$97 MILLION).

4. THE GREEK GOVERNMENT HAS NOT FORMALLY CLARIFIED PERCENTAGE OF EQUITY PARTICIPATION PERMITTED TO FOREIGN INVESTORS IN MINERALS PROJECTS. GOG ACTION ON RECENT INVESTMENT APPLICATION INDICATES, HOWEVER, THAT IT WILL PROBABLY BE LIMITED TO UNDER 50 PERCENT. IN CASE OF BAUXITES PARNASSE S.S. \$200 MILLION 600,000 TON/YEAR ALUMINA PROJECT, GOG APPROVAL, EFFECTIVE APRIL 13, 1976, PROVIDED FOR GREEK 51 PERCENT CONTROL OF NEW CORPORATION ESTABLISHED WITH \$60 MILLION EQUITY. GREEK INTERESTS ARE REPRESENTED BY BAUXITES PARNASSE S.A. AND HIMIC. LATTER ALSO PLANS TO DEVELOP MESSOLONGHI SALT PANS TO PRODUCE SODA REQUIRED FOR ALUMINA PROJECT.

5. INCENTIVES AND TERMS GOVERNING BAUXITES PARNASSE INVESTMENT - THE ONLY NEW PROJECT UNDER WAY IN THE GREEK ALUMINA SECTOR - REFLECT PRESENT GOG POLICY AND MAY BE SUMMARIZED AS FOLLOWS:

A. FOREIGN PARTNER'S SHARE ARE FREELY TRANSFERABLE TO NATIONALS OF COUNTRIES FROM WHICH THE INVESTMENT CAPITAL ORIGINATED OR TO GREEK NATIONS.

B. IMPORTED CAPITAL IN FORM OF KNOW-HOW AND CONSULTING, PLANNING, DESIGN, ENGINEERING AND CONSTRUCTION MANAGEMENT SERVICE CANNOT EXCEED NINE PERCENT OF TOTAL FOREIGN INVESTMENT CAPITAL.

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C. RAW MATERIALS (EXCEPT BAUXITE) FOR PROJECT REQUIREMENTS WILL BE IMPORTED DUTY AND TAX FREE OVER TEN-YEAR PERIOD FROM START-UP OF PRODUCTION.

D. LIQUID AND SOLID FUELS REQUIRED FOR PROJECT MAY BE IMPORTED DUTY AND TAX FREE PROVIDED FUELS OF SUITABLE QUALITY ARE NOT AVAILABLE LOCALLY AT INTERNATIONALLY COMPETITIVE PRICES.

E. THE INVESTOR HAS UNDERTAKEN TO EXPORT 60 PERCENT OF ANNUAL ALUMINA OUTPUT IN RETURN FOR FOLLOWING PRIVILEGES OVER PERIOD OF TEN YEARS:

1. FREEZING OF INCOME TAX RATES COMMENCING ONE YEAR AFTER START-UP OF PRODUCTION.

2. DUTY AND TAX FREE IMPORTATION OF MACHINERY,
ACCESSORIES, PARTS, TOOLS, ELECTRONIC COMPUTERS, CRANES,
MATERIALS HANDLING EQUIPMENT, MOTOR TRUCKS, AND RESEARCH,
TESTING, MEASURING AND CONTROL INSTRUMENTS INTENDED FOR
THE PROJECT.

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ACTION COME-00

INFO OCT-01 EUR-12 ISO-00 EB-07 GSA-01 INT-05 AID-05

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3. EXEMPTION OF PROJECT FROM PAYMENT OF TAXES,
LEVIES, DUES, CONTRIBUTIONS, AND OTHER CHARGES IMPOSED BY
LOCAL GOVERNMENT, MUNICIPALITIES, COMMUNITIES, PORT
AUTHORITIES, ETC.

4. EXEMPTION FROM PAYMENT OF NATORY PUBLIC
AND MORTGAGE REGISTRATION FEES ON FOREIGN LOANS INTENDED
TO FINANCE THE PROJECT.

F. INVESTOR IS AUTHORIZED TO PAY ROYALTIES OF
UP TO TWO PERCENT OF FOB PRICE OF EXPORTABLE ALUMINA FOR
USE OF FOREIGN TECHNICAL KNOW-HOW, PATENTS, PROCESSES,
ETC.

G. INVESTOR MAY USE PART OF FOREIGN EXCHANGE
EARNINGS FROM ALUMINA EXPORTS TO MAINTAIN \$3.5 MILLION

BANK ACCOUNT ABROAD TO FINANCE PURCHASES OF RAW MATERIALS, ACCESSORIES, SPARES AND TOOLS.

H. INVESTOR MAY EMPLOY FOREIGN SENIOR TECHNICAL AND ADMINISTRATIVE PERSONNEL AND PAY UP TO 50 PERCENT OF THEIR REMUNERATION ABROAD.
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I. INVESTOR IS OBLIGATED TO APPLY INTERNATIONALLY ACCEPTABLE METHODS FOR ENVIRONMENTAL PROTECTION AND POLLUTION CONTROL.

J. ARBITRATION IS REQUIRED FOR SETTLEMENT OF DISPUTES BETWEEN THE INVESTOR AND THE GREEK GOVERNMENT.

6. THE PROJECT ALSO ENJOYS TAX, TARIFF AND FINANCING INCENTIVES, REGIONAL INCENTIVES; AND EXPORT INCENTIVES AS REPORTED IN REF E.

7. AS REPORT IN REF D, GREEK BAUXITE RESERVES ARE PRESENTLY CONTROLLED BY INDEPENDENT PRODUCERS, MANY OF WHICH PLAN EXPANSION OF CURRENT MINING OPERATIONS. BAUXITES PARNASSE S.A., THE LARGEST SINGLE PRODUCER, IS EXPANDING PRODUCTION CAPACITY FROM 2 MILLION TONS TO 3.5 MILLION TONS ANNUALLY BY 1980.

8. GREECE DOES NOT BELONG TO THE INTERNATIONAL BAUXITE ASSOCIATION AND IS UNLIKELY TO JOIN IN THE NEAR FUTURE.

9. QUANTITATIVE EFFECT OF GOG POLICIES AND REGULATIONS ON BAUXITE/ALUMINA PRODUCTION CANNOT BE ESTIMATED. LOCAL MINING OPERATORS BELIEVE CURRENT DEVELOPMENT INCENTIVES AND PROVISION OF CERTAIN BENEFITS OVER 10-YEAR PERIOD WILL ENCOURAGE LONG-TERM INVESTMENT. LOCAL INDUSTRIES ALSO CONSIDER MAJORITY GREEK CONTROL OF MINERAL SECTOR PROJECTS AS SAFETY VALVE AGAINST NATIONALIZATION. PRESENT SUPPLY OF SKILLED LABOR IN MINING SECTOR IS, HOWEVER, CONSIDERED BY SOME INDUSTRY SOURCES AS LIMITATION IN CASE OF NEW MAJOR PROJECTS.
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